This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 PRETORIA 001365

SIPDIS

DEPT FOR AF/S; AF/EPS; EB/TPP/MTA
USDOC FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND
COMMERCE ALSO FOR HVINEYARD
TREASURY FOR BRESNICK
DEPT PASS USTR FOR PCOLEMAN

E.O. 12958: N/A
TAGS: ECON ETRD KTEX SF USTR
SUBJECT: PROTECTION SOUGHT FOR THE SOUTH AFRICAN
APPAREL AND TEXTILE INDUSTRY

REF: (A) PRETORIA 448

(B) 2004 PRETORIA 4527
(C) 2004 PRETORIA 4428

¶1. Summary. While Chinese and Indian apparel and textile exports to the United States continued to surge in the first month after the ending of the multi-Fiber arrangement, South African exports of these products (section 11) to the United States showed a 17% decline. A DTI official said the flood of cheap Chinese imports into South Africa had devastated the local industry and openly declared support for the introduction of safeguards to protect the South African clothing, textile and footwear industry. South African textile industry officials outlined their case for using various options for protection, namely higher tariffs, safeguards, anti-dumping duties, and an indicative pricing system for import valuation. End summary.

¶2. As expected, the January 1 lifting of import quotas with the ending of the 1974 Multi-Fiber Arrangement produced a sharp increase in textile exports from China and India at the expense of smaller producers in developing countries. According to the United States International Trade Commission the total value of Chinese and Indian apparel and textiles exports (section 11) to the United States increased respectively by 31% and 8% in January 2005. At the same time South African apparel and textile exports (section 11) to the United States declined by 17%. Apart from the lifting of quotas, the strength of the South African rand against the dollar contributed to the state of affairs. Adding to the pressure, South African imports of Chinese apparel and textiles products increased respectively by 76% and 35% in 2004.

¶3. Mr. Lionel October, deputy director-general of the Department of Trade and Industry (DTI), said on March 10, 2005 that the South African government would support the introduction of safeguards to protect the South African clothing, textile and footwear industry from the flood of cheap Chinese imports that have devastated the industry over the past four years. He said that the report of the Technical Task Team, consisting of representatives of government, industry and labor to investigate and find solutions to the crisis, was being finalized. The Textile Federation of South Africa (Texfed) expects the findings of the task team and a possible introduction of safeguards to be discussed at the next Technical Task Team meeting, scheduled for April 5, 2005.

¶4. In the past the South African government was of the opinion that the only lasting solution to the industry's problems was to find new world market opportunities, to improve their productivity and become more competitive. According to Helena Claasens, economist at Texfed, there are a number of options available to protect the domestic textile and apparel industry, namely higher tariffs, safeguards, anti-dumping regulations as well as the adoption of an indicative pricing system for import valuation.

Tariffs

¶5. Helena Claasens of Texfed feels that the DTI does not have too much room to maneuver in terms of an increase in customs duties, as South Africa's import duties on textiles and apparel are very close to the bound rate. The bound rate is the maximum tariff rate a country may apply without breaching WTO obligations.

	SA Applied rate	Bound rate
Apparel	45	40
Household textiles	30	30
Fabrics	25	22
Yarns	17.5	15
Some Fibers	10	7.5

Safeguards

¶6. Although the DTI has now openly declared itself in favor of the introduction of safeguards to protect the local industry, a formal complaint will still have to be lodged by the industry, where they would have to supply evidence to prove serious injury to the South African textile and apparel industry. Texfed is confident it could prove the following:

- A surge in Imports. This can easily be proven given that Chinese apparel and textile imports to South Africa grew by 51% in 2002, 34% in 2003 and 61% in 2004.
- Unforeseen circumstances. Industry perceives the appreciation of the local currency as unforeseen.
- Material injury. The closure of 24 factories since July 2002 and the loss of 30,000 job opportunities during the past two years should be enough prove of material injury.

China, on the other hand, has cautioned countries against any hasty implementation of safeguards to restrict textile exports. According to Sun Huaibin, spokesperson for the China National Textile council, quotas were removed on January 1 so that trade can be freer, and any restriction on trade would therefore run counter to free trade principles.

Anti-dumping

¶7. Texfed is optimistically looking at anti-dumping as a protection option, especially in the case of ready-made products like clothing, curtains and duvets. In the case of anti-dumping, industry would have to prove that Chinese producers export their products to South Africa at a price lower than their normal value (domestic selling price), thereby causing material injury to the South African industry. According to Texfed there is enough evidence to prove dumping. First, Chinese textile and apparel are exported at a much lower price to South Africa than to the United States. Second, yarn and fabrics are imported at higher prices than the ready-made products. To support the previous statement Texfed supplied the following import prices as examples to embassy's economic specialist.

Product	Import price (fob) from China (R/KG)
Ready-made knitted curtains	2.25
Ready-made woven curtains	3.51
Nylon fibers	14.60
Polyester fibers	4.44
Yarns	15.64
Knitted fabrics	24.51
Woven fabrics	23.51
Towels (of terry fabrics)	13.73
Cotton fibers	10.00
Cotton yarn	16.82
Terry fabrics	25.61

Indicative Pricing System

¶8. Industry also wants the South African government to adopt an indicative pricing system for import valuation, instead of the World Customs Organization's valuation code that South Africa adopted. The code sets global standards for charging duties on declared imports. Using an indicative pricing system means that if, for example, the indicative price for a particular garment is R40, and an invoice says that particular garment is worth R5, meaning the garment's price does not conform with the indicative price, such a garment would be prevented from entering the country. At the moment it does not seem that the South African Revenue Service (SARS) is very eager to change to an indicative pricing system. By using the import valuation procedures, SARS complies with World Customs Organization (WCO) rules.

FRAZER